

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7419

BILL NUMBER: HB 1546

NOTE PREPARED: Apr 30, 2009

BILL AMENDED: Apr 29, 2009

SUBJECT: PERF/TRF Administrative Matters; PERF 13th Check.

FIRST AUTHOR: Rep. Niezgodski

FIRST SPONSOR: Sen. Kenley

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation This bill:

- (1) allows a vested member of the Teachers' Retirement Fund (TRF) who terminates covered employment to elect to withdraw the entire amount in the member's annuity savings account before the member is eligible to do so at retirement and receive a pension at retirement;
- (2) requires the Public Employees' Retirement Fund (PERF) and TRF to adopt a policy to require direct deposit or another approved method as the preferred way for a member or beneficiary to receive benefits;
- (3) allows the PERF or TRF board (or a board designee) to waive the direct deposit requirement in certain circumstances
- (4) requires that payment of an estimated retirement benefit be at least 85% of the actual benefit. (Currently, the payment must be 85% of the actual benefit.);
- (5) allows the annual payment of a PERF or TRF monthly retirement benefit that does not exceed \$5;
- (6) provides that a PERF or TRF member's application for retirement benefits is void, if, on or before the date the member files the application, the member has an agreement with a covered employer to become reemployed in a covered position;
- (7) eliminates the Treasurer of State as the treasurer of PERF and reassigns the treasurer's duties to the PERF Board and executive director;
- (8) provides that liability for a PERF member's unfunded service credit is charged against the employer's account;
- (9) specifies the date a TRF member returns to active teaching service or teacher education for purpose of earning military service credit;
- (10) repeals provisions concerning the Treasurer of State's role as PERF treasurer; and
- (11) provides for a thirteenth check for members, survivors, and beneficiaries of PERF.

Effective Date: July 1, 2009; January 1, 2010.

Explanation of State Expenditures: (1) Allowing a vested member of TRF who terminates covered employment to elect to withdraw the entire amount in the member's annuity savings account may have a negligible fiscal impact. The number of TRF members who have done this in the past is very small.

(2 & 3) Requiring PERF and TRF to adopt a policy to require direct deposit for receipt of benefits will save an estimated \$79,000 per year for PERF and an estimated \$22,000 per year for TRF. The funds affected are the administrative funds for both PERF and TRF. Allowing the PERF or TRF Board (or a board designee) to waive the direct deposit requirement in certain circumstances would reduce these estimated savings by an indeterminable amount.

(4) Requiring that payment of an estimated retirement benefit for both PERF and TRF be at least 85% of the actual benefit will have no fiscal impact on either fund. This allows PERF and TRF to pay more of the benefit to the member.

(5) Allowing annual payment of a monthly benefit that does not exceed \$5 may impact the administrative funds of both PERF and TRF, but not in a significant amount.

(6) Denying a member's application for retirement benefits if the member has an agreement with a covered employer to become reemployed in a covered position will delay benefits until the member retires. The impact will depend on the amount of the benefits involved and the number of people involved. The funds affected are the respective benefit funds for PERF and TRF.

(7&10) Eliminating the Treasurer of State as the treasurer of PERF and reassigning the treasurer's duties to the PERF Board and executive director will save an estimated \$8,000. The fund affected is the PERF administrative fund. It also repeals provisions concerning the Treasurer of State's role as PERF's treasurer.

(8) Providing that liability for a PERF member's unfunded service credit is charged against the employer's account will have no fiscal impact as it provides clarification and codifies existing practices.

(9) Specifying the date a TRF member returns to active teaching service or teacher education for purpose of earning military service credit will have no fiscal impact and clarifies exactly how a member's military service is to be determined.

(11) The cost of providing a 13th check for PERF is shown in the table below.

13 th Check	State	Local	Total
Change in Unfunded Accrued Liability	\$9.2 M	\$12.6 M	\$21.8 M
Change in Annual Funding	\$709,000	\$974,000	\$1.683 M
Change in Annual Funding as % of Pay	0.04%	0.03%	0.04%

The funded status would decrease from 97.5% to 97.4%.

The funds affected are the state General Fund (55%), or \$389,950, and various dedicated funds (45%), or \$319,050. The percentage split represents the split in the personal services portion of the state budget.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: Those units with members in PERF.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317-576-1508; Steve Barley, Chief Operating Officer of PERF and Deputy Director; 317-233-4184; Steve Russo, Executive Director of TRF, 317-232-3864.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Funded Status - The ratio of the assets of a pension plan to its liabilities.

Funding- A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Thirteenth Check - An annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes.

Unfunded Actuarial Liability - The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.